



**BAC 7710-FW-P**

## **POSTAL REGULATORY COMMISSION**

### **39 CFR part 3050**

**[Docket No. RM2018-8; Order No. 4689]**

### **Periodic Reporting**

**AGENCY:** Postal Regulatory Commission.

**ACTION:** Notice of proposed rulemaking.

**SUMMARY:** The Commission is acknowledging a recent filing requesting the Commission initiate an informal rulemaking proceeding to consider changes to an analytical method for use in periodic reporting (Proposal Five). This document informs the public of the filing, invites public comment, and takes other administrative steps.

**DATES:** *Comments are due:* August 22, 2018.

**ADDRESSES:** Submit comments electronically via the Commission's Filing Online system at <http://www.prc.gov>. Those who cannot submit comments electronically should contact the person identified in the **FOR FURTHER INFORMATION CONTACT** section by telephone for advice on filing alternatives.

**FOR FURTHER INFORMATION CONTACT:** David A. Trissell, General Counsel, at 202-789-6820.

### **SUPPLEMENTARY INFORMATION:**

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##### **I. Introduction**

On June 26, 2018, the Postal Service filed a petition pursuant to 39 CFR 3050.11, requesting that the Commission initiate a rulemaking proceeding to consider changes to analytical principles relating to periodic reports.<sup>1</sup> The Petition identifies the proposed analytical changes filed in this docket as Proposal Five.

##### **II. Proposal Five**

*Background.* The Postal Service states that it considered three related concerns when drafting Proposal Five. Petition, Proposal Five at 1. First, the Postal Service notes that, beginning January 1, 2018, the Universal Postal Union (UPU)<sup>2</sup> implemented “format” or shape based terminal dues.<sup>3</sup> The UPU separates its letter post mailpieces into three formats: small letters (format Petit (P)), large letters, also called “flats,” (format Grand (G)), and bulky letters and small packets (format Encombrant (E)). *Id.* at 1-2. The recent change to the UPU terminal dues system applies separate terminal dues for the combined letter

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<sup>1</sup> Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Five), June 26, 2018 (Petition). The Postal Service filed a non-public library reference with Proposal Five. Library Reference USPS-RM2018-8/NP1, Nonpublic Material Relating to Proposal Five, June 26, 2018; Notice of Filing of USPS-RM2018-8/NP1 and Application for Nonpublic Treatment, June 26, 2018.

<sup>2</sup> The UPU is a United Nations specialized agency comprising 192 member countries, including the United States. Member countries negotiate international agreements governing the exchange of international mail, including applicable rates for the delivery of international mail.

<sup>3</sup> Petition, Proposal Five at 1. Terminal dues are also referred to as default UPU rates, because they apply in the absence of an agreement between or among postal operators establishing other rates.

and flat (formats P and G) dispatches, format E dispatches, and for dispatches that contain mailpieces from all three formats (Mixed).<sup>4</sup>

Second, the Postal Service states that Proposal Five addresses issues raised in the Postal Service's response to Chairman's Information Request No. 10, question 6 in Docket No. ACR2017.<sup>5</sup> CHIR No. 10, question 6 requested the Postal Service to "identify and discuss the factors that increased processing, delivery, and other costs for Inbound Letter Post in [Fiscal Year (FY)] 2017."<sup>6</sup> In its response to CHIR No. 10, question 6, the Postal Service discussed shape-based cost trends for a market dominant negotiated service agreement, Inbound Market Dominant PRIME Tracked Service Agreement, to explain the increased Inbound Letter Post cost. Responses to CHIR No. 10, question 6. CHIR No. 18 asked why the Postal Service did not incorporate the shape-based information into the Domestic Processing Model and the International Cost and Revenue

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<sup>4</sup> *Id.* at 2. The UPU separates its member countries into four country groups (Groups I-IV) based on each member country's Gross National Income and the development of its postal system. Decisions of the 26th Congress other than those amending the Acts (resolutions, decisions, recommendations, formal opinions, etc.) (2017), Annex 2, Classification of countries and territories for terminal dues and Quality of Service Fund (QSF) purposes available at [http://www.upu.int/uploads/tx\\_sbdownloader/actsLastCongressActsEn.pdf](http://www.upu.int/uploads/tx_sbdownloader/actsLastCongressActsEn.pdf). Then the UPU separates these country groups into two systems (Target and Transition). Designated postal operators of Target System member countries that send large volumes of UPU Letter Post mailpieces are required to sort their UPU Letter Post mailpieces by shape (formats P and G dispatches and format E dispatches). Designated postal operators of smaller volume Target System member countries and Transition System member countries may opt to separate their UPU Letter Post mailpieces by shape.

<sup>5</sup> *Id.* See Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-7 of Chairman's Information Request No. 10, question 6, February 2, 2018 (Responses to CHIR No. 10).

<sup>6</sup> Docket No. ACR2017, Chairman's Information Request No. 10 and Notice of Filing Under Seal, question 6, January 26, 2018 (CHIR No. 10).

Analysis (ICRA) report.<sup>7</sup> In its response, the Postal Service explained that it could not apply the shape-based ratios developed for the financial workpapers for inbound international negotiated service agreements to the Domestic Processing Model or the ICRA report without additional data and development.<sup>8</sup> The Postal Service indicated that it was investigating a shape-based approach to the Domestic Processing Model and planned to complete its investigation and file a proposal to incorporate a shape-based approach into the Domestic Processing Model and the ICRA report in FY 2018.<sup>9</sup>

Third, the Postal Service contends that Proposal Five responds to a directive in the FY 2017 Annual Compliance Determination report (ACD). Petition, Proposal Five at 3. In the FY 2017 ACD, the Commission directed the Postal Service to file an update on its investigation of using shape-based data to develop Inbound Letter Post costs within 90 days of the FY 2017 ACD, if the Postal Service had not yet filed a “rulemaking proposal to implement shape-based costing for Inbound Letter Post in the Domestic Processing Model and the ICRA.”<sup>10</sup>

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<sup>7</sup> Chairman’s Information Request No. 18, question 1, February 13, 2018.

<sup>8</sup> Responses of the United States Postal Service to Questions 1-2 of Chairman’s Information Request No. 18, question 1, February 20, 2018 (Response to CHIR No. 18).

<sup>9</sup> Petition, Proposal Five at 2-3; see Response to CHIR No. 18, questions 1.a., 1.c.

<sup>10</sup> *Id.* See Annual Compliance Determination Report, Fiscal Year 2017, March 29, 2018, at 69 (FY 2017 ACD).

*Proposal.* The Postal Service states that Proposal Five will replace the current methodology with the development of separate inbound costs for letter and flats (formats P and G) and for bulky letters and small packets (format E). Petition, Proposal Five at 3. The Postal Service states that the ICRA report format will not change, but “the aggregated costs shown on the individual ICRA lines would be the sum of the separately-developed letter/flat-shape and packet-shaped costs.” *Id.*

*Rationale and impact.* The Postal Service states that the current methodology does not align with what is now the UPU terminal dues structure. *Id.* Additionally, the Postal Service explains that the proposed methodology will provide better data from which the Commission may analyze the new UPU terminal dues rate structure and analyze the various components of the Inbound Letter Post product. *Id.* at 4. The Postal Service identifies the likely effects of Proposal Five on the development of the ICRA report in non-public Excel file “Attachment1.xls.” The Postal Service provides cell-by-cell differences between the proposed methodology and the data provided in the ICRA as part of the Postal Service’s annual compliance report for FY 2017. *Id.*

### **III. Notice and Comment**

The Commission establishes Docket No. RM2018-8 for consideration of matters raised by the Petition. More information on the Petition may be accessed via the Commission’s Web site at <http://www.prc.gov>. Interested persons may submit comments on the Petition and Proposal Five no later than

August 22, 2018. Pursuant to 39 U.S.C. 505, Katalin K. Clendenin is designated as an officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

#### **IV. Ordering Paragraphs**

*It is ordered:*

1. The Commission establishes Docket No. RM2018-8 for consideration of the matters raised by the Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Five), filed June 26, 2018.

2. Comments by interested persons in this proceeding are due no later than August 22, 2018.

3. Pursuant to 39 U.S.C. 505, the Commission appoints Katalin K. Clendenin to serve as an officer of the Commission (Public Representative) to represent the interests of the general public in this docket.

4. The Secretary shall arrange for publication of this Order in the **Federal Register**.

By the Commission.

**Stacy L. Ruble,**

*Secretary.*